Lloyd's of London and Lloyd's Insurance Company S.A.

Operating Companies			
Action: Affirmed	**Type**	**Rating**	**Outlook**
Lloyd's of London	IFSR	AA-	Stable
Lloyd's Insurance Company S.A.	IFSR	AA-	Stable

Methodology

Insurer & Insurance Holding Company Global Rating Methodology

ESG Global Rating Methodology

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Rating Summary:

The ratings reflect Lloyd's strong risk-adjusted capitalisation, favourable capital trends, multi-faceted capital structure, very strong reserve position, high credit quality investment portfolio, strong liquidity position, effective risk management programme, and a third consecutive year of profitable underwriting results. At end-2023, Lloyd's reported a market wide solvency coverage ratio of 207% (2022: 181%). Lloyd's capital grew at a compound annual growth rate of 10.1% over the past five years and increased 12.5% in 2023 over the prior year. KBRA believes that Lloyd's capital structure with multiple successive layers of claims paying resources and an end-2023 central solvency coverage ratio of 503% (2022: 412%) significantly enhances the market's financial position. At end-2023, the margin in the syndicate held reserves increased to 8.0% (2022: 6.9%) according to syndicate Statements of Actuarial Opinion. Adding the central reserve margin increased the overall margin to 8.9%. Lloyd's invests conservatively and holds approximately 82% (2022: 81%) of its investments in cash and liquid, investment-grade fixed income securities. Lloyd's has a robust, ever-evolving risk management framework and processes characterized by well-articulated risks and conservative tolerances which are regularly monitored and subject to various stress tests and scenario analysis. For the third consecutive year, Lloyd's reported a combined ratio below 100%, reflecting continued underwriting discipline, benign catastrophe claims, and a favourable pricing environment for most major lines of business. Favourable 2023 underwriting results of £5.9 billion (2022: £2.6 billion) and a combined ratio of 84.0% (2022: 91.9%) were supplemented by an investment return of £5.3 billion (2022: £3.1 billion loss) driven by recovery in the financial markets during the year. Expenses remained flat year-over-year at £0.4 billion, resulting in an overall profit of £10.7 billion (2022: £0.8 billion loss). Also, for the third consecutive year, the attritional loss ratio remained below 50%.

Balancing these strengths are upcoming critical milestones in the BluePrint Two programme, execution risk for an ambitious commercial strategy, and uncertainty surrounding the successful adaptation of principles-based oversight to sustain underwriting profitability in a soft pricing environment. BluePrint Two represents one of the most significant systems and process upgrades undertaken by Lloyd's. Whilst a tremendous amount of work has been expended by market participants, the scope of deliverables has narrowed since project inception and progress has been slower than planned with deadlines pushed back to ensure the market is ready for adoption. KBRA believes that a smooth cutover to the new digital services is critical to market adoption, reducing the cost of doing business at Lloyd's over time, attracting new market participants, and bringing the market in line with the digital maturity of peers. In addition to a digital platform, Lloyd's wants to drive growth and continued relevance of the market in the global insurance industry through its commercial strategy. The goal is for a larger, simpler, and profitable market delivering growth through new market participants as well as higher underwriting volumes from existing market participants. Execution of the strategy entails changes across the market, capital framework and structure of the Corporation – each of which has the potential to change the risk profile of Lloyd's. KBRA believes that careful attention by management will be essential to ensure all evolving risks are appropriately identified and prudently managed. KBRA believes that the ability of Lloyd's to successfully adapt its principles-based oversight to the soft phase of the underwriting cycle is key to sustaining consistently profitable underwriting results.

Outlook

The Stable Outlook reflects KBRA's expectation that Lloyd's will continue to maintain strong risk-adjusted capitalisation whilst prudently executing its strategic initiatives. Additionally, KBRA expects Lloyd's focus on profitable performance to continue, underpinned by its principles-based oversight framework, which KBRA expects will evolve to address the challenges of sustaining profitable performance in a soft pricing environment.

Key Credit Considerations	+/−
Strong Risk-Adjusted Capitalisation and Continued Favourable Capital Trends At end-2023, Lloyd's reported market wide solvency coverage of 207% (2022: 181%). Reported market capital grew at a 10.1% compound annual growth rate over the past five years and increased 12.7% in 2023 over the prior year.	+
Lloyd's Capital Structure Enhances the Market's Financial Strength Lloyd's capital structure consists of successive layers that either respond severally or mutually to policyholder claims. The central solvency coverage of 503% (2022: 412%) provides a very strong backstop to the Lloyd's market in the remote event that some members cannot pay policyholder claims. KBRA views the Corporation's financial leverage as manageable.	+
Very Strong Reserve Position At end-2023, the margin in the syndicate held reserves increased to 8.0% (2022: 6.9%) according to the syndicates' Statements of Actuarial Opinion. Adding the central reserve margin increased the overall margin to 8.9%. In addition to allowances incorporated into the claims data, syndicates have incorporated an average 2.5% explicit uplift in their net reserves for the heightened inflationary environment.	+
High Credit Quality, Liquid Investment Portfolio At end-2023, 82% (2022: 81%) of Lloyd's portfolio was invested in cash and investment grade fixed income securities. The average credit quality of the corporate bond portfolio was AA with a duration of 2.4 years. The tactical pivot of the Central Fund to obtain better diversification and to increase risk-adjusted returns is progressing as planned with private assets taking longer to reach target levels. KBRA does not view the broadening of the Central Fund's asset allocation as materially increasing overall investment risk.	+
Strong Liquidity and ALM Profile Lloyd's current liquidity ratio[1] for the past five years was 149.7% and 154.8% in 2023. The average asset duration for the entire investment portfolio was 2.0 years (2022: 1.8 years) whilst the average undiscounted liability duration was 3.7 years (2022: 3.7 years). In addition, assets are reasonably well matched to liabilities by currency, thereby minimising FX and any currency transfer risks.	+
Recognized Market Leader Lloyd's ranks among the top global (re)insurers, writing more than 60 classes of business across insurance and reinsurance. Lloyd's is licensed to write onshore insurance in 80 countries, reinsurance in 100 countries and offshore reinsurance in more than 200 countries. Lloyd's distributes its products through three channels: brokers, coverholders and service companies. At end-2023, more than 380 brokers and 3,300 coverholders and service companies constituted Lloyd's global distribution network. KBRA believes that Lloyd's has diverse earnings sources and ample access to new business opportunities to achieve its business plans.	+
Effective Risk Management Framework Lloyd's has a robust risk management framework and processes. Risks are well articulated. Risk appetites are conservative and monitored by the Risk and Regulatory function. The framework has various stress tests and scenarios embedded within it, including reverse stress testing of the Central Fund. In addition, the Risk and Regulatory function selects areas of current, evolving, and complex risks, such as BluePrint Two and sustainable market performance, to ensure that Lloyd's risk profile is well understood and appropriately controlled.	+
Improved Underwriting Profitability Continues Lloyd's reported a combined ratio of less than 100% for the third consecutive year, driven by continued underwriting discipline, lower than expected major claims, and a generally favourable pricing environment. KBRA expects that entities at higher rating levels will report combined ratios below 100% on a consistent year over year basis and through both hard and soft underwriting cycles. KBRA believes that the hard underwriting cycle has peaked and expects the pricing environment to soften over the medium/long term. The ability of Lloyds's to sustain underwriting profitability by adapting its principles-based oversight as the industry enters a soft market cycle is key to KBRA's view of the market's long-term underwriting consistency.	+/−

[1] Current liquidity ratio is defined by KBRA as cash, premiums receivable plus level 1 and level 2 assets in the fair value hierarchy divided by gross loss and loss adjustment expense reserves.

Critical Cutover to BluePrint Two Digital Services Approaches with Heightened Execution Risk BluePrint Two represents one of the most significant systems and process upgrades undertaken by Lloyd's. To date, a tremendous amount of progress has been made since the project was launched. However, KBRA notes that because of the complexity of modernising the market, the scope of BluePrint Two has narrowed since the project was originally launched. Also, progress has been slower than originally planned and deadlines have been pushed back several times to ensure the market is ready for adoption. Cutover to the new digital services is now expected to occur in 2025. KBRA believes that a smooth cutover is critical to successful market adoption, reducing the cost of doing business at Lloyd's over time, attracting new market participants, developing new insurance solutions, and bringing the market in line with the digital maturity of its peers.	–/+
Ambitious Commercial Strategy Being Undertaken In addition to a digital platform, Lloyd's wants to drive growth and continued relevance of the market in the global (re)insurance industry through its commercial strategy. The goal is for a larger, simpler, and futureproof market delivering growth through new participants attracted to do business at Lloyd's and stronger participation and higher underwriting volumes from existing market participants. Execution of the strategy will entail changes across the market, capital framework and structure of the Corporation – each of which could potentially change the current risk profile of Lloyd's. KBRA believes that careful attention by management will be necessary to make sure all evolving risks are appropriately identified and prudently managed.	–
Exposure to Event Risk As of January 2024, peak catastrophe risks remained well within Lloyd's risk appetite, whilst an increase in secondary perils during 2023 prompted Lloyd's to significantly expand its approach to oversight of these risks. Whilst Lloyd's share of global catastrophes was down in 2023, KBRA expects Lloyd's to continue to provide meaningful cover for catastrophe risks and believes that management needs to continue to focus on appropriate controls.	–

Rating Sensitivities	
▪ Sustained reported combined ratios below 100% throughout the underwriting cycle ▪ Successful cutover and adoption by the market of the BluePrint Two digital platform ▪ Tangible progress on executing Lloyd's commercial strategy with evolving risks appropriately managed	+
▪ A return to sustained unfavorable underwriting performance over the medium term ▪ Meaningful decrease in capital and/or reduction in solvency ratios below targets ▪ Inability of the market to successfully cutover and adopt the BluePrint Two digital platform	–

Recent Developments

2023 Market Results

For 2023, the Major Claims Ratio was 3.5% (2022: 12.7%), primarily from the earthquake in Turkey, wildfires in Hawaii, Cyclone Gabrielle, and Hurricane Idalia. Prior year releases were 2.2% (2022: 3.6%) accounting for reinsurance to close legacy transactions in the market, offset by some strengthening in exposures to the conflict in Ukraine. The market's balance sheet includes an overall reserve margin of £4.6 billion (2022: £3.8 billion) in line with Lloyd's prudent approach to reserving conservatively. The market's attritional loss ratio at 48.3% (2022: 48.4%) was stable. The market-wide solvency coverage was 207% (2022; 181%) and the central solvency coverage was 503% (2022: 412%). At end-2023, the total capital of the market stood at £45.3 billion (2022: £40.2 billion), a 12.7% increase reflective of the continued growth and profitability of the market.

Lloyd's PFFS Profit and Loss - 12 months ended 31 December 2023

	FY 2022	FY 2023	change
	£m, except %		
Gross Written Premium	46,705	52,149	11.6%
Net Earned Premium	32,458	36,925	13.8%
Net Incurred Claims	(18,655)	(18,302)	-1.9%
Operating Expenses	(11,162)	(12,713)	13.9%
Underwriting Result	2,641	5,910	123.8%
Investment return	(3,128)	5,310	8,438
Foreign Exchange (Losses)/Gains	158	(134)	(292)
Other (expenses)/Income, Net	(440)	(423)	17
Profit / (Loss) before Tax	(769)	10,663	11,432
Combined Ratio	91.9%	84.0%	-7.9% pts
Loss Ratio	57.5%	49.6%	-7.9% pts
Expense Ratio	34.4%	34.4%	0.0% pts

Source: Annual Report 2023

Lloyd’s Insurance Company S.A.
On a BE GAAP basis, Lloyd’s Insurance Company S.A. reported 2023 profit before tax of €65.9 million (2022: €42.1 million) and a combined ratio of 63.0% (2022: 108.0%) on €4.5 billion in gross written premium (2022: €3.7 billion). The solvency ratio improved 4 percentage points to 220% (2022: 216%) under the standard Solvency II formula.

Insurance Entity Financials

Lloyd's of London (PFFS)					
GBP in millions	2023	2022	2021	2020	2019
Gross Written Premiums (GWP)	52,149	46,705	39,216	35,466	35,905
Net Written Premiums (NWP)	39,351	34,570	28,439	25,826	25,659
Net Earned Premiums	36,925	32,458	26,657	25,876	25,821
Net Loss and LAE Incurred	18,302	18,655	15,440	18,929	16,361
Acquisition & Other Underwriting Expenses	12,702	11,162	9,476	9,623	9,998
Net Underwriting Gain (Loss)	5,921	2,641	1,741	(2,676)	(538)
Net Investment Income (Loss)	5,310	(3,128)	948	2,268	3,537
Result before Tax	10,663	(769)	2,277	(887)	2,532
Other Comprehensive Net Income (Loss)	(281)	340	39	21	(4)
Loss & LAE Ratio	49.6%	57.5%	57.9%	73.2%	63.4%
Expense Ratio	34.4%	34.4%	35.5%	37.2%	38.7%
Combined Ratio	84.0%	91.9%	93.5%	110.3%	102.1%
Underlying Combined Ratio[1]	80.5%	79.2%	82.3%	87.3%	95.1%
Attritional Loss Ratio	48.3%	48.4%	48.8%	51.9%	57.3%
GWP/Shareholders' Equity	1.2	1.2	1.1	1.0	1.2
NWP/Shareholders' Equity	0.9	0.9	0.8	0.8	0.8
Total Assets	165,095	161,530	138,155	128,304	119,878
Shareholders' Equity (Capital, Reserves & Subordinated Debt)	45,269	40,205	36,553	33,941	30,638
Market Wide Solvency Coverage Ratio	207%	181%	177%	147%	156%
Central Solvency Coverage Ratio	503%	412%	388%	209%	238%

[1] Underlying Combined Ratio is a non-GAAP measure. It is a key performance indicator (KPI) used by Lloyd's to measure the profitability of underwriting activity excluding major claims.

Source: Annual Reports

Stress Testing

Lloyd’s continuously identifies and examines stress and scenario tests (SSTs) which may have an adverse impact on the business to ensure that potential risks are understood and monitored effectively with adequate controls put in place. The outcomes of the SSTs are an integral part of Lloyd’s overall risk management system and inform management in terms of making decisions regarding member level and central capital strategy over the medium term. In addition to balance sheet stress tests, Lloyd’s includes business plan stress tests in its suite of SSTs, the results of which are considered as part of the assessment of capital adequacy and inform areas of focus for the following year Capital Planning Group review.

In addition to its own stress testing, KBRA reviewed output from Lloyd’s SSTs as well as Lloyd’s recast of historical events that determine whether model outcomes are still within acceptable parameters. KBRA believes that Lloyd’s has a robust stress testing framework that is effective in managing risk.

Balance Sheet Management

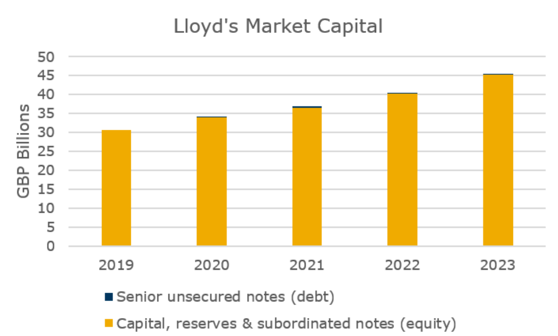
Lloyd’s capital structure consists of successive layers that either respond severally or mutually to policyholder claims, as shown in the chart below.

Lloyd's Capital Structure					
Claims / Losses	Several Assets	First Layer	Syndicate Level Assets		All premiums received by a syndicate are held in its premium trust fund and are the first resource for paying that syndicate's policyholder claims.
		Second Layer	Members' Funds at Lloyd's (FAL)		Each member provides capital to support its underwriting at Lloyd's. Each managing agent produces its own capital assessment in respect of each managed syndicate stating how much capital it considers it needs to cover a 1-200 loss to ultimate with a 99.5% confidence level. This amount is uplifted by 35% to determine each syndicate's Economic Capital Assessment (ECA) and each member's FAL.
	Mutual Assets	Third Layer	Central Fund Corporation Net Assets[1]	Callable Layer[2]	The central assets are available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member. It is funded by members' annual contributions, reinsurance purchased by the Society in 2021 for a five year term, and subordinated debt issued by the Society in 2014 and 2017.
			£450mm xs £600mm aggregrate Central Fund reinsurance		
			£200mm xs £1,050mm aggregate Central Fund reinsurance		
			Subordinated Debt		

[1] Corporation Net Assets = Corporation Reserve, Associates Reserve, Revaluation Reserve, and Transition Reserve.
[2] Callable layer: Central Fund assets may be supplemented by a ‘callable layer’ of up to 5% of members’ overall premium limits in any one calendar year. These funds would be drawn from premium trust funds.

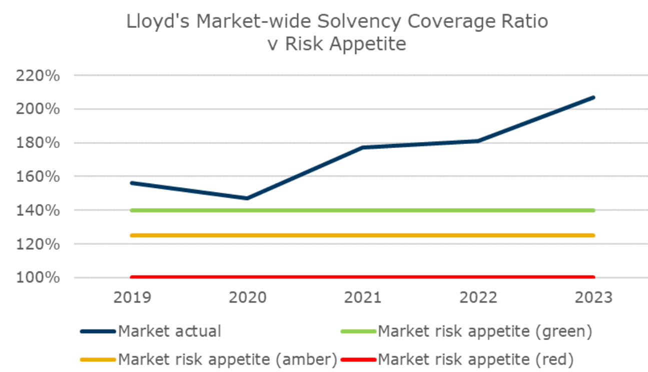
Quality of Capital/Underwriting Leverage

At a market level, capital has grown at a 10.1% CAGR over the past 5 years and increased by 12.7% in 2023 over the prior year, driven by strong underwriting gains, particularly in property reinsurance and property insurance, as well as the unwinding of most unrealized investment losses caused by the rapid rise in interest rates during 2022. KBRA views favorably the quality of the market’s capital as it consists primarily of equity[2]. At end-2023, debt, in the form of senior notes that are financing the Future at Lloyd’s programme, represented 0.7% of capital. The senior notes mature between 2030 and 2045, and KBRA does not expect early repayment of the outstanding debt before maturity. In addition, KBRA views the assessable features of the capital structure as a credit strength as it provides an additional and reliable source of claims paying resources to cover liabilities at the syndicate level.



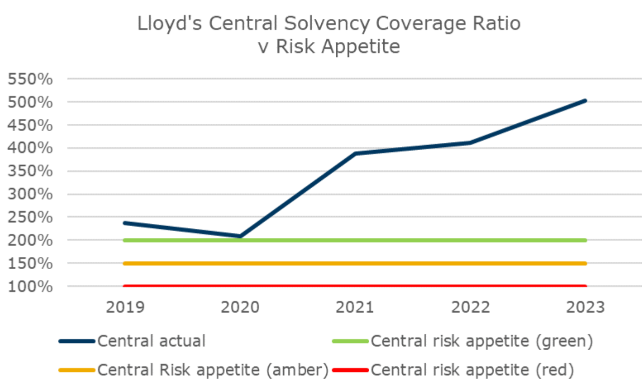
Source: Annual Reports

[2] The subordinated notes issued by the Society in 2014 and 2017 are structured such that the capital raised in these issuances is available to the Central Fund prior to the repayment of noteholders, thereby qualifying them for equity treatment at a market level..



Based on the Lloyd's Internal Model (LIM), the market wide solvency coverage ratio (MWSCR) increased to 207% in 2023 (2022: 181%), well above the market's 140% risk appetite level. The year over year increase in the MWSCR reflected increases in members' balances, driven by strong profitability, investment returns, discounting benefits, and a £500 million reduction in the market wide solvency capital requirement (SCR) due to a change in the cost of capital risk margin calculation as part of Solvency UK regulatory changes.

Lloyd's MWSCR Components				
Year	SCR £m	SCR % Δ	Eligible Assets £m	Eligible Assets % Δ
2023	23,150	-1.5%	24,780	30.4%
2022	23,500		19,000	

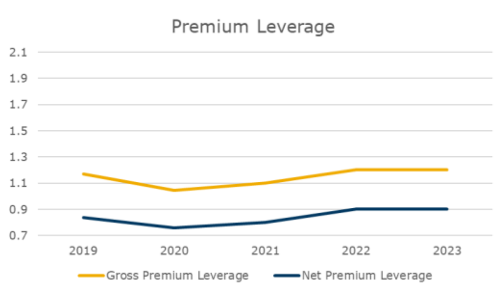


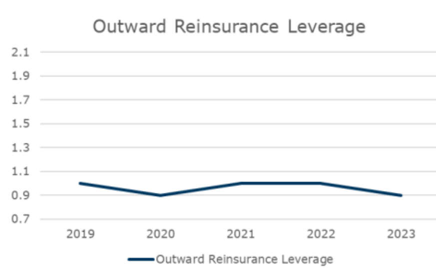
Also based on the LIM, the central solvency coverage ratio (CSCR) at end-2023 was 503% (2022: 412%). This is due to positive fair value movements on investments and a £100 million reduction in the central SCR as part of Solvency UK regulatory changes. The CSCR remains well above the Society's 200% risk appetite.

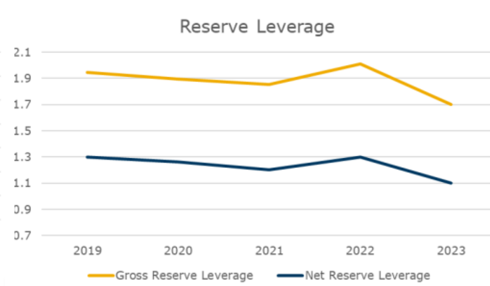
Lloyd's CSCR Components				
Year	SCR £m	SCR % Δ	Eligible Assets £m	Eligible Assets % Δ
2023	1,200	-11.1%	4,830	14.6%
2022	1,350		4,214	

On 29 March 2024, the Society's 2019 tranche of syndicate loans was repaid, resulting in a 7-point reduction to the 31 December 2023 CSCR with no impact on the corresponding MWSCR.

On a year-over-year basis, Lloyd's 2023 premium leverage ratios were on par with 2022, whilst outward reinsurance leverage was down slightly partly due to reduced take up rates because of increased pricing/reduced availability in the reinsurance market and partly due to the growth in capital during 2023. Reserve leverage ratios were down because of lower major claims and favorable development on prior claims during 2023.



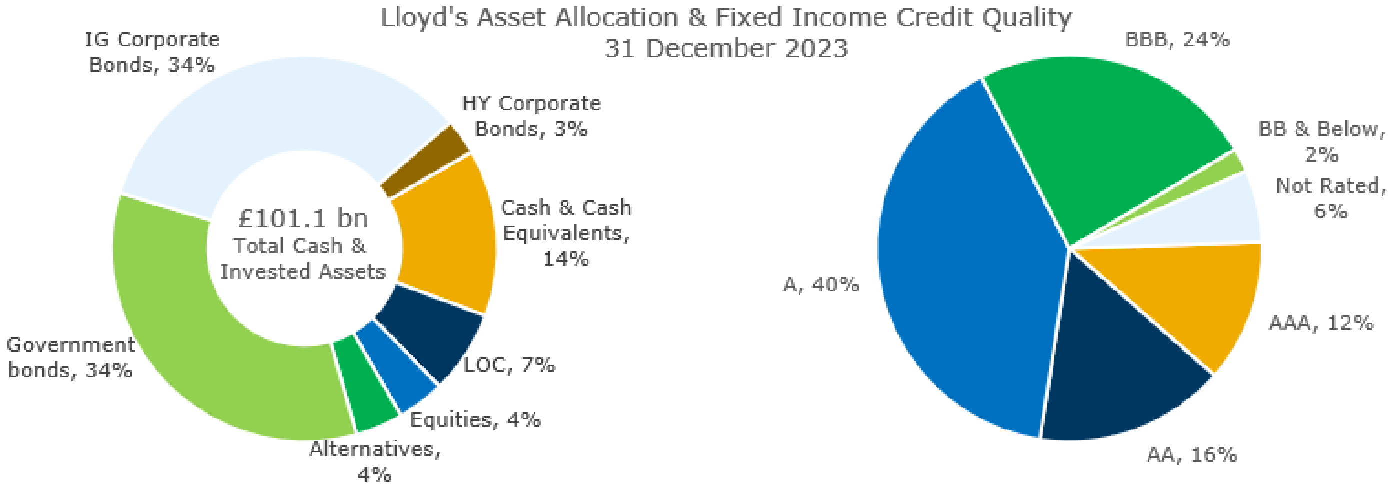




Lloyd's continues to maintain a strong reserve position with favourable prior year reserve development of 2.2% (2022: 3.6%) in 2023. At end-2023, the margin in the held reserves increased to 8.0% (2022: 6.9%) according to the syndicates' Statements of Actuarial Opinion. Adding the Central Reserve Margin of £480 million increases the margin to 8.9% at yearend 2023. Casualty and inflation remain areas of focus for reserving oversight.

Asset Quality and Investment Risk

Lloyd's cash and invested assets have grown at a 7.2% CAGR over the past 5 years from £71.2 billion at end-2018 to £101.1 billion at end-2023. Asset allocation and fixed income credit quality at end-2023 are shown in the charts below.



Source: Lloyd's

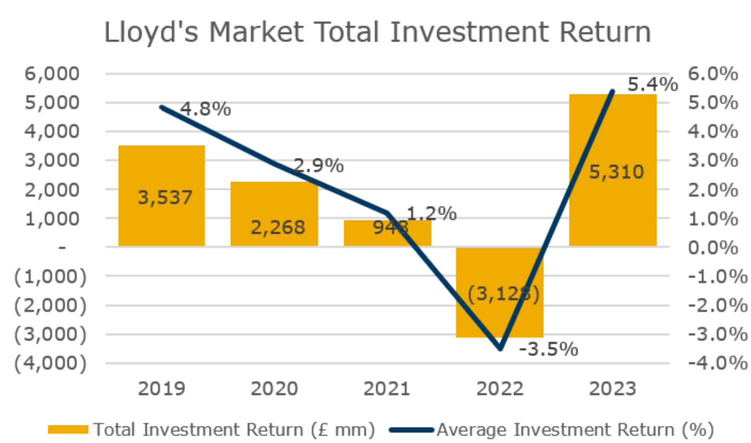
KBRA believes that Lloyd's continues to hold a high-quality investment portfolio with 85% of the portfolio allocated to cash, cash equivalents, government bonds and fixed income securities. 92% of corporate bonds are rated investment grade with an average credit rating of AA and duration of 2.4 years. Further, KBRA believes that Lloyd's asset allocation by currency minimises FX risk, with assets in the premium trust funds broadly invested to align with liability currency.

To obtain better portfolio diversification and to increase risk adjusted returns, Lloyd's continues to broaden the Central Fund's asset allocation to include more Alternatives (private assets) in line with the investment strategy adopted in 2022. At end-2023, the allocation to Alternatives was 4% (2022: 3%) of the overall portfolio. KBRA does not view the broadening of the Central Fund's asset allocation as materially increasing overall investment risk.

Lloyd's reported net investment income of £5,310 million in 2023, representing a positive return on investment of 5.4% (2022: loss of £3,128 million, -3.5% return). Heightened geopolitical events, increased interest rates and pressure on a few US regional banks early in 2023 caused volatility across Lloyd's fixed income portfolio.

Net gains on investments of £21 million (2022: loss of £46 million) were recognised directly in equity.

Lloyd's expects strong investment returns over the medium term driven by high coupon income in the current yield environment.



Source: Annual Reports

Financial Flexibility and Access to Capital

KBRA believes that Lloyd's has favourable financial flexibility and access to capital, with internal access to additional funds supplemented by a proven track record of accessing external sources.

On at least a quarterly basis, Lloyd's assesses the adequacy of capital both centrally and across the market. Members are required to maintain capital at their Economic Capital Assessment and are expected to recapitalise should their Funds at Lloyd's drop below this level following major losses. From the 2022 year of account Lloyd's revised its requirements such that members are only required to formally "come into line" once per year, rather than twice per year as had historically been the case. In addition, Lloyd's introduced a quarterly corridor test to ensure members remain adequately capitalised through the remainder of the year. The quarterly corridor test requires members to provide additional capital where they are below the minimum level of the corridor and only allows capital to be withdrawn to the extent a member's surplus is above the minimum level of the corridor. If a member fails to come into line central assets can be made available by the Council to pay policyholder claims.

In 2021, a five-year £650 million aggregate reinsurance treaty (excess a £600 million retention) from high-credit quality counterparties was purchased to protect the Central Fund in the unlikely event that future policyholder losses exceeded all Society resources. During 2024, the Central Fund reinsurance treaty was cancelled and rewritten for a further five-year term effective from 1 January 2024 ensuring a continuous prudent solvency buffer for market growth. The treaty is now denominated in USD to mitigate exchange rate volatility with an aggregate limit of $812.5 million (excess a $1,000 million retention). In addition, should central assets become depleted, the Society has the right to make a call on members of up to 5% of members' premium limits (callable contributions). The callable contributions can be drawn from members' premium trust funds without the members' consent.

Between 2014 and 2020, the Society raised £1.6 billion in capital via several senior unsecured and subordinate note issuances as well as proceeds from syndicate loans. The senior unsecured notes ensure funding to meet the cash requirements of the Future of Lloyd's programme. The subordinate notes are available to satisfy the obligations of the Central Fund in advance of repayment to the noteholders. In December 2022, £193.9 million of the £500 million subordinate notes maturing in 2024 were repurchased by the Society. The syndicate loans are hybrid securities as they receive equity treatment, with certain payments optional. On 29 March 2024, the £110 million 2019 tranche of syndicate loans was repaid.

In January 2021, Lloyd's received regulatory approval from the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) to set up London Bridge Risk PCC Ltd. (LB1), a new multi–Insurance Special Purpose Vehicle. In August 2022, Lloyd's received regulatory approval from the PRA and FCA to set up London Bridge Risk PCC 2 Ltd. (LB2). LB2 offers several enhancements over LB1, namely for corporate members LB2 is also able to write excess of loss covers and for syndicates LB2 can provide collateralised reinsurance on both excess of loss and quota share bases. For all structures LB2 can fund the reinsurance obligations by either preference shares or debt securities; and the principal transaction documentation and regulatory approval process has been streamlined.

Both LB1 and LB2 complement the more traditional approach to deploying capital at Lloyd's by providing additional optionality and are major components of the Future at Lloyd's programme which, among other things, aims to create an insurance market that attracts new forms of capital. A growing amount of capital is entering Lloyd's through LB1 and LB2 across many transactions.

Liquidity and Asset/Liability Management

KBRA views favourably the liquidity and ALM profile of Lloyd's.

Lloyd's holds a high concentration of liquid assets in its investment portfolio, namely cash, government bonds and investment grade corporate securities. KBRA views Lloyd's liquidity metrics as strong with a current liquidity ratio[3] of 149.7% over the past five years and 154.8% in 2023.

The average asset duration for the overall portfolio has lengthened slightly to 2.0 years from 1.8 years a year ago. Average liability duration remained at 3.7 years whilst discounted liabilities increased from 3.3 to 3.4 years due to the change in the discount rates on a year-over-year basis. In addition, aggregate assets are reasonably well matched to technical provisions by currency.

Based on the results of Lloyd's 2023 liquidity stress test, KBRA believes that Lloyd's is well positioned to meet its liquidity needs after a stress event.

Operating Fundamentals

Drivers of Profitability

Favourable 2023 underwriting results of £5.9 billion and a combined ratio of 84.0% were primarily driven by continued underwriting discipline, lower than expected major claims and a generally favourable pricing environment. The underwriting result was supplemented by an investment return of £5.3 billion, representing a positive return on

[3] Current liquidity is defined as cash, premiums receivable, plus level 1 and level 2 assets in the fair value hierarchy divided by gross loss and loss adjustment expense reserves.

investment of 5.4%, driven by the recovery in the financial markets during the year. Due to the strengthening of GBP against USD a £0.1 billion FX loss was recorded. Expenses remained flat year-over-year at £0.4 billion, resulting in an overall profit before tax of £10.7 billion.

During 2023, rate change accounted for 7.2% of gross written premium growth, with 4.3% coming from volume growth. FX movements had minimal impact on premium growth. The Property and Reinsurance segments were beneficiaries of the positive pricing environment, partially offset by less attractive areas in Casualty (FinPro and Cyber). The major claims ratio at 3.5% was below the expected level for any one year and below the 15-year average. Whilst there were significant catastrophe events during the year, including the Hawaii wildfires, the earthquake in Turkey and Hurricane Idalia, the composition of the Lloyd's property portfolio resulted in relatively low exposure to these events. Prior year reserve releases benefited the combined ratio by 2.2% with releases reported across all lines of business except Specialty and Casualty Reinsurance and Aviation where syndicates strengthened losses arising from the Russia/Ukraine conflict.

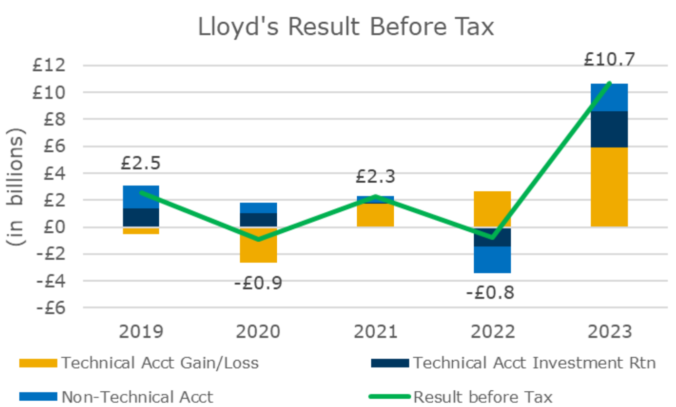
Over the medium term, the main drivers of profitability will be the successful cutover to the BluePrint Two digital platform, execution of Lloyd's commercial strategy, and effectively evolving principles-based oversight to a soft pricing environment.

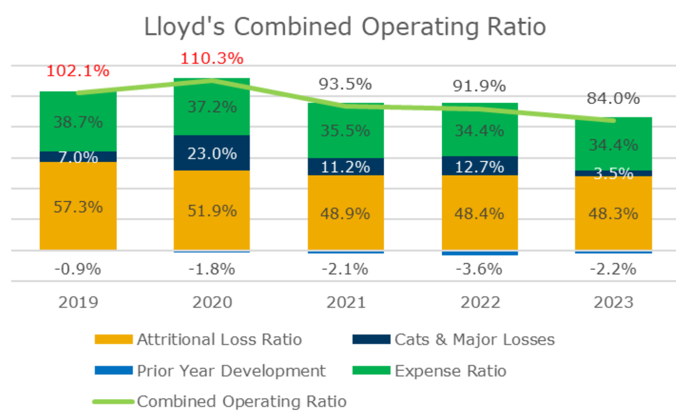
The rollout of the BluePrint Two digital platform happens in three stages. The market is currently in the testing phase, with expected cutover to phase one digital services in 2025. Because of the complexity of modernising the Lloyd's market and the need to ensure "buy in" from all market participants the scope of the original project has been scaled back and progress has been slower than originally planned with deadlines having to be pushed back to ensure a successful launch and adoption. Once the digital market is finalised, operating expense benefits are expected to be realised, resulting in an eventual reduction in the combined ratio. KBRA believes that a smooth cutover is critical to successful market adoption, reducing the cost of doing business at Lloyd's over time, attracting new market participants, developing new insurance solutions, and bringing the market in line with the digital maturity of its peers.

Lloyd's commercial strategy is designed to grow the market in terms of both absolute size as well as percentage share so as to maintain its relevance to the global corporate and specialty insurance industry. In addition to a digital platform, Lloyd's is looking to simplify guidelines and oversight to enable profitable underwriting and to reduce barriers to profitable growth. The goal is for a stronger, simpler, and futureproof proposition delivering growth through new market participants attracted to do business at Lloyd's and stronger participation and higher underwriting volumes from existing market participants. Execution of the strategy will entail changes across the market, capital framework and structure of the Corporation – each of which could potentially change the current risk profile of Lloyd's. KBRA believes that careful attention by management will be necessary to make sure all evolving risks are appropriately identified and prudently managed.

Whilst recent underwriting results have been strong, the underwriting cycle will eventually turn putting pressure on Lloyd's ability to sustain profitable results. KBRA believes that preparation now to evolve and adapt Lloyd's principles-based oversight framework is critical to the market's future profitability and views favourably Lloyd's proactive approach to the issue.

Consistency of Profitability





Source: Annual Reports

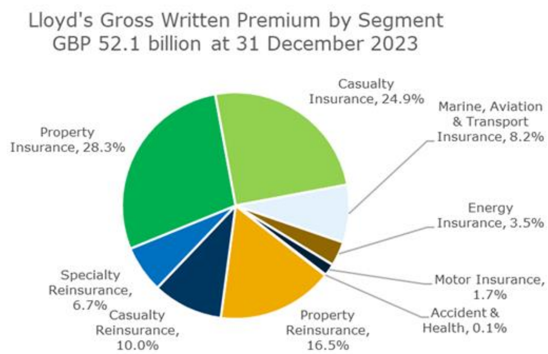
From 2019 through 2023, Lloyd's reported a positive cumulative result before tax[4] of £13.8 billion. The result was driven by a cumulative investment return of £8.9 billion supplemented by a cumulative underwriting gain of £7.1 billion for the same period. Cumulative results were heavily influenced by 2023 results. For 2023, Lloyd's reported an exceptionally strong result before tax of £10.7 billion (2022: (£0.8) billion), split £5.9 billion (2022: £2.6 billion) underwriting gain and £5.3 billion (2022: (£3.1) billion) investment return.

For the third consecutive year, Lloyd's reported a combined ratio under 100%, reflecting continued underwriting discipline, benign catastrophe claims, and a favourable pricing environment for most major lines of business. In 2023, catastrophes and major claims were £1.3 billion (2022: £4.1), net of reinsurance and including reinstatements payable and receivable, 2.3 billion below Lloyd's five-year average and 1.8 billion below its fifteen-year average[5]. Also, for the third consecutive year, the attritional loss ratio remained below 50%.

KBRA acknowledges Lloyd's favourable underwriting performance over the past three years and the tremendous effort involved in achieving this result. KBRA expects insurers at the AA rating level to consistently report underwriting profitability, inclusive of catastrophe/major losses, regardless of where the industry is in the underwriting cycle, with a miss in any given year relatively minor and quickly reversed the following year.

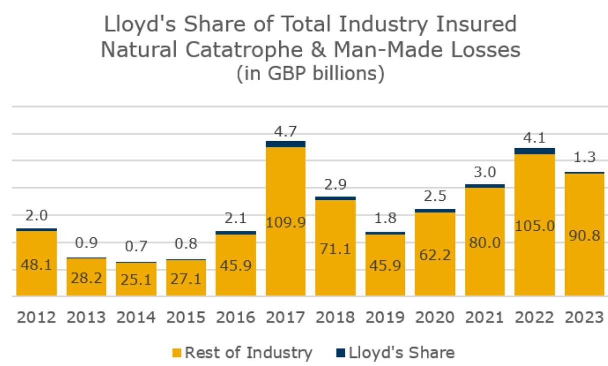
Earnings Diversification: Product/Geography

Lloyd's underwrites more than 60 classes of business that roll up into the major lines of business shown in the chart to the right. Lloyd's is licensed to write onshore insurance in 80 countries, reinsurance in 100 countries and offshore reinsurance in over 200 countries. KBRA believes that the Lloyd's market has strong earnings diversification both from product and geographic standpoints.



Exposure to Event Risk

Per Swiss Re Sigma 01/2024: *Natural catastrophes in 2023*, the main driver of the accumulation of insured losses in 2023 was event frequency; there were 142 insured-loss inducing catastrophes during the year, a new record. The fastest growing category of catastrophes was "medium-severity events", which are defined as events causing losses of GBP 0.8 – 4.0 billion. Both the total and Lloyd's share of losses is down due to continued higher attachments and tight terms and conditions by reinsurers, so more is being retained by primary companies with fewer claims that reach reinsurers being classified as major losses.



2012-2021 industry insured losses are from Swiss Re Institute's Sigma Explorer.
2022 industry insured losses are from Sigma 01/2023.
2023 industry insured losses are from Sigma 01/2024.
Industry and Lloyd's insured losses include both man-made and natural catastrophes.
USD industry losses were converted to GBP at end of year exchange rates.

As of January 2024, peak catastrophe risks remained well within Lloyd's risk appetite, whilst an increase in secondary perils during 2023 prompted Lloyd's to significantly expand its approach to oversight of these risks.

Lloyd's maintains a high credit quality investment portfolio comprised primarily of cash and fixed income securities, with approximately 8% (2022: 7%) of the portfolio in equity and alternative investments at end-2023. Throughout 2023, market volatility reduced and central bank actions to reduce inflation have so far been successful at avoiding significant economic contraction. Whilst the recent changes to Lloyd's strategic asset allocation increase investment risk for the Central Fund, KBRA believes that Lloyd's monitoring of the risk is appropriate relative to its financial market event exposure.

[4] The result before tax for the Lloyd's market is the equivalent of net income for traditional insurance companies and is one of two key performance indicators (KPIs) used to assess both the performance of the market and individual syndicates. The other KPI is Combined Operating Ratio, known more commonly as Combined Ratio.
[5] Averages are indexed for inflation to 2023. Claims in foreign currency translated at the exchange rates prevailing at the date of loss.

Company Profile and Risk Management

Management Profile and Strategy

Lloyd's is led by a seasoned management team with oversight by the Council of Lloyd's. The entire Lloyd's management team has extensive experience in the (re)insurance industry. KBRA views favourably the addition of Bob James as Chief Operations Officer and Jonathan May as Lloyd's Insurance Company S.A. CEO.

Lloyd's strategy consists of four pillars: performance, digitalisation, purpose, and culture. The performance pillar revolves around profitability, as measured by the underlying combined ratio[6], and growth of the marketplace by attracting new capital and new participants to it. Through BluePrint Two, Lloyd's plans to create a data-focused, automated, and cost-efficient marketplace. The goal is to make operating at Lloyd's neutral to participants, i.e., without extra work and cost for them to comply with Lloyd's requirements. Lloyd's purpose is to share risk to create a more sustainable, resilient, and inclusive world. Lloyd's is committed to creating a diverse, inclusive, and high-performing culture across the market to attract and retain the best talent.

Market Position

KBRA believes that Lloyd's overall market position remains favourable.

Lloyd's benefits from its strong brand recognition and reputation. Lloyd's is working with the market to agree a three-year roadmap for "insuring the transition" to a low carbon economy. Lloyd's also leads the industry in creating innovative products to address emerging and complex risks. In addition, Lloyd's continues to prioritise digitalisation to improve efficiency by reducing costly, complex, and inefficient processes and to improve the ease of doing business in the market. KBRA believes that this effort will support Lloyd's ability to produce consistently profitable performance over the long term and better align the market with its peers.

Distribution

Lloyd's distributes its products through three channels: brokers, coverholders and service companies. First and foremost, Lloyd's is a broker market. Brokers facilitate the risk transfer process between policyholders and underwriters. As of 31 December 2023, there were 381 (2022: 384) brokers introducing business to Lloyd's. Managing agents may also authorise third parties to accept risks directly on behalf of the syndicate(s) they manage. These third parties are known as coverholders and provide a local route to Lloyd's in many jurisdictions across the world. As of 31 December 2023, there were 2,949 (2022: 3,461) approved coverholder office locations. Service companies are like coverholders but are distinguished from coverholders as they are wholly owned subsidiaries of managing agents, authorised to accept risks directly for the syndicate(s) of their parent managing agents. As of 31 December 2023, there were 405 (2022: 402) service companies, with the majority in the UK and the US.

From 1 September 2024, Lloyd's will establish an office in Miami FL to strengthen its Latin America and Caribbean business and to continue to support the market's sustainable and profitable growth in the Americas. The Miami office will also support market development across the US where E&S lines continue to grow.

KBRA views favourably Lloyd's multi-channel, multi-jurisdiction distribution network that provides the market access to attractive new business opportunities.

Risk Management

KBRA believes that Lloyd's has a comprehensive, well-documented, embedded risk management system that is appropriate for the market's size and complexity.

The Lloyd's Risk Management and Internal Control Policy describes its overall framework and approach to risk, including roles and responsibilities, internal governance arrangements, tools, processes and reporting procedures. Lloyd's Risk Appetite Framework articulates the level of acceptable risk as determined by Council through a series of risk appetite statements and metrics. The boundaries set by the risk appetite framework are hard limits that require immediate management escalation and action if breached. The risk appetite metrics are monitored on an ongoing basis by both the business areas and the risk committees. Lloyd's has adopted a consistent approach in managing risk through a Risk and Control Self-Assessment process. This process reassesses existing risks and identifies any new risks. It also evaluates the effectiveness of key controls. During 2023, there were no material changes to the overarching frameworks in place. However, the risk and control environment did continue to evolve including further embedding of principles-based oversight across the market, improved control over the international network and more robust exit planning. Also in 2023, a systemic risk framework was developed to be used to assess key risks across assets, liabilities, and operations (e.g., inflation, pandemic, cyber, geopolitical, banking sector crisis).

[6] Underlying combined ratio excludes Catastrophes and Major Claims

Risk management priorities for 2024 include:

- Ensuring an appropriate risk-based and proportionate oversight approach is embedded and maintained as market conditions soften and that any emerging risks are well understood, and appropriate market supervision is implemented.
- Delivering enhancements to Lloyd's operational resilience framework and driving risk mitigation across the operations division, including cyber security, data strategy, change and technology.
- Providing proportionate assurance throughout the 2- and 5-year commercial strategy project to ensure that potential risks are identified and understood, including enhancing and recalibrating the risk framework to enable and support executive decision-making.

ESG Management

KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. KBRA does not deploy ESG scores, but instead analyzes ESG factors through the lens of how company management plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG can be found here. KBRA believes stakeholder perspectives and emerging disclosure requirements will remain prominent components of (re)insurer approaches to ESG.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, companies are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for a company's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as companies continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

The impact of climate change on (re)insurance entities will differ across short-, medium- and long-term horizons, and may materialize through a range of risk vectors, including physical exposures, energy/carbon transition, and liability profiles. Climate change effects could occur on either side of the balance sheet and whilst direct financial implications might be immaterial for a company in the short-term, over time, implications for the overall economic system could be material and may drive adjustments in a (re)insurer's operations or strategy. The effectiveness of mitigation efforts related to climate risk will drive materiality across the sector.

In line with reporting requirements under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, Lloyd's Corporation meets the requirements by reporting on all material global emission in Scope 1 and 2 and a ratio of company emissions to a quantifiable factor associated with company activity (FTE). Select Scope 3 emissions are also reported. Reporting covers GHG emissions on an organisational approach. This means that GHG emissions reported cover all legal entities and sites for which Lloyd's has organisational control. Reporting does not include "representative offices" nor the Lloyd's marketplace or any of its participants.

2023 was the first year without any COVID-19 restrictions in place. This resulted in a 37% increase in foot traffic in the Lloyd's building compared to 2022, even with the ground floor closed for 10 weeks, and a 19% increase in Scope 1 emissions compared to 2022. Scope 2 emissions have decreased due to a reduction in Lloyd's global footprint through the closure of some offices. The easing of COVID-19 restrictions has also led to an increase in business travel as in-person meetings have returned. This in combination with Defra's flight emissions factor increasing in 2023, attributing more tCO_2e emissions to flights have increased Lloyd's Scope 3 emissions. Nevertheless, since the baseline year of 2019 Lloyd's Corporation's total global emissions per FTE have reduced by 33%.

Social Factors

Whilst Lloyd's is currently generally viewed favorably by stakeholders, given its 2023 results and ongoing initiatives with respect to climate, social and cultural issues, there continues to be pressure from NGOs for the market to divest from some risks. Whilst this ongoing pressure has not tainted stakeholder views, Lloyd's is aware of the need to proactively manage its reputation. In 2023, work continued to define what "insurer of the transition" means so that it can be clearly communicated to stakeholders.

Governance Factors

Given the critical nature of third parties, particularly as respects BluePrint Two infrastructure, improving controls and monitoring around the services received are currently a focus. To ensure successful adoption of BluePrint Two digital services, the Council established the BluePrint Two Cutover Committee (BCC) in October 2023. Ultimately the BCC will make recommendations to Council regarding go/no go decisions on BluePrint Two cutover.

External Considerations

The role of the Society of Lloyd's (the Society) is threefold: (1) underwrite insurance business through its wholly owned subsidiaries, Lloyd's Insurance Company S.A. (Lloyd's Europe) and Lloyd's Insurance Company China Ltd. (Lloyd's China), (2) administer the Central Fund, and (3) oversee and regulate the market.

Lloyd's Europe and Lloyd's China are the principal insurance businesses of the Society. The principal activities of Lloyd's Europe and Lloyd's China are to provide reinsurance and non-life direct insurance in the European and Chinese insurance markets, respectively. In 2023, Lloyd's Europe accounted for 98% (2022: 98%) of the Society's gross written premium. Lloyd's syndicates participate in Lloyd's Europe and Lloyd's China business via retrocessional agreements. All business written by both subsidiaries is 100% reinsured to Lloyd's syndicates. The net result for the Society is the excess (shortfall) of earned ceding commissions minus the subsidiaries' operating expenses. In 2023, the Society reported a £42 (2022: £30) million balance on the technical account. KBRA views these undertakings favourably as they provide access to territories that syndicates cannot access directly and they provide an additional, growing source of earnings for the Society. Further development of Lloyd's Europe is a component of the commercial strategy.

The Central Fund is the third layer in the market's capital structure. Its role is to provide mutual assets to pay a member's insurance liabilities in the unlikely event that the member's Premium Trust Fund (first layer) and Funds at Lloyd's (second layer) have been exhausted. The Society invests the financial assets of the Central Fund according to investment guidelines and risk appetites established by the Council and Investment Committee. At end-2023, the asset mix was 72% (2022: 74%) core assets (debt and other fixed income securities) and 28% (2022: 26%) growth assets (global equities as well as participation in various investment pools). Core assets are managed by the Society's Treasury and Investment Management department whilst third-party investment managers are retained to manage the growth assets. During 2023, broadening of the Central Fund asset allocation continued. As the relative attractiveness of private asset funds diminished during 2023, the investments pivoted towards public asset solutions (Canadian fixed income fund and USD cash fund). Whilst investment risk, and returns, have increased, KBRA believes that the Central Fund's investments remain well-diversified and well within risk appetite.

The Society supports the Lloyd's market to underwrite risks through its trading rights and distribution network. It also ensures that the market remains well capitalised and provides services to enable the market's efficient operation.

Society of Lloyd's (UK GAAP)

(GBP millions)	2023	2022	2021
Total Assets	20,163	19,097	16,238
Intangible Assets	38	54	58
Senior Debt (A)	303	303	299
Subordinated Debt (B)	604	603	796
Net Assets (C)	3,497	3,283	3,058
Total Capital (A+B+C)	4,404	4,189	4,153
Financial Leverage	21%	22%	26%
Intangibles/Capital	1%	1%	1%
Central Fund Claims & Provisions Incurred	-	-	-
Profit before Tax	358	124	6
Profit After Tax	268	98	7
Interest Expense	41	47	58
Debt Coverage	9.7	3.6	1.1

In 2022 Lloyd's Society switched from IFRS to UK GAAP. 2021 is restated.
Source: Annual Reports

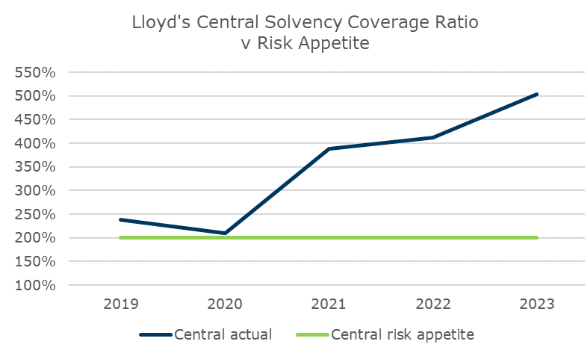
KBRA notes that the £514 million outstanding syndicate loans are not included in the table above as debt. The terms of the loans make them hybrid securities that receive equity accounting treatment, with both principal and interest payments optional at the discretion of the Society and Council, respectively. Under the Society's financial statements, any interest paid is recorded as an offset to equity. During 2023, an interest payment of £19 million (2022: £19 million) was made.

KBRA typically treats hybrid securities as debt in its leverage and coverage analysis. With perpetual instruments, KBRA views debt coverage as more important than financial leverage when periodic interest payments are being made and principal repayment is optional. In addition, the terms of the loans only allow principal repayment after a period of five years from issuance. At the five-year anniversary, on 29 March 2024, the Society opted to repay the principal on the 2019 tranche of syndicate loans, reducing the outstanding amount by £110 million.

KBRA notes that the remaining principal of £306 million on the 2014 subordinate note matures in October 2024 and KBRA expects the balance to be repaid at maturity.

Based on its more conservative view, KBRA believes that the Society's financial leverage is manageable as of 31 March 2024.

Based on the latest approved version of the Lloyd's Internal Model, the central solvency coverage ratio was 503% at end-2023, up 91 points over end-2022. The central solvency coverage ratio remains well above the Society's 200% risk appetite. KBRA views the Society's solvency position as very strong. KBRA also views favourably the pay down of the 2019 tranche of syndicate loans, reducing the central solvency coverage ratio to 496%, still very strong.



Both the Society's before and after-tax profit is up considerably in 2023 over 2022, primarily driven by the general growth in premiums written across the Lloyd's market, as the Society's key revenue streams – subscriptions, Central Fund contributions and overseas operating charges – are driven by syndicate premium and underwriting year premium growth. KBRA believes that the Society has adequate sources of cash to service its debt, inclusive of any interest the Council elects to pay on the syndicate loans.

KBRA believes that the Society's pivotal role in overseeing the market and the lack of any new Central Fund Undertakings to pay member obligations in the last five years are significant credit strengths for the Lloyd's market.

Transfer Risk

Managing agents must identify the main currencies in which each syndicate transacts its business and hold assets in each of those currencies to match the relevant liabilities. Managing agents must ensure that the assets match liabilities and take corrective action when a mismatch occurs. The Corporation also reviews the alignment of assets to liabilities at the syndicate level as well as at the market level. In addition, many members seek to match capital disposition by currency against peak exposures.

At end-2023, the main currencies were GBP, USD, EUR, CAD, and AUD. Other currencies comprised approximately 2.0% (2022: 2.2%) of total assets, 0.8% (2022: 0.8%) of total liabilities and 5.2% (2022: 6.4%) of total capital and reserves. As exposure is well-matched by currency and is predominantly to freely convertible currencies in stable jurisdictions, KBRA views Lloyd's exposure to transfer risk from sovereign capital controls as minimal and well-managed.

There are certain issuers, entities or transactions rated by KBRA Europe or KBRA UK that may be or have relationships with Shareholders and/or Shareholder-Related Companies, as that term is defined in KBRA's Shareholder and Shareholder Related Companies for KBRA Europe and KBRA UK Policy and Procedure. Relevant disclosure information may be found here.